

MICHIGAN DEPARTMENT OF HUMAN SERVICES

Report to the Senate and House Appropriations Committees
The Senate and House Appropriations Subcommittees,
And the House and Senate Fiscal Agencies

April 2006

Family Independence Program
Impacts and Costs of Increasing the FIP Earned Income Disregard
From \$200 +20% to \$200 +50%

Combined Impacts of Increasing the Earned Income Disregard
With Concurrent Increases in Michigan's Minimum Wage

Budget and Policy Analysis Division
And
Family Support Services

FY Budget Direction:

In compliance with Section 57o of 2005 Public Act No. 324, the Department of Human Services was directed to study the impact and cost of increasing The amount of Earned Income that is disregarded (I.e. the FIP Earned Income Deduction) in determining an employed FIP client's grant amount.

Concurrent with proposed increases in The Earned Income Disregard in several proposed Jobs, Education and Training (JET) sites in FY 2007, Michigan's minimum wage will also be incrementally increasing through January 2008, and new Federal Work Requirements for TANF will also be in force. This analysis considers combined impacts of these several policy changes.

Background:

The amount of a client's FIP grant for cases that have earnings is in part determined by the application of an "Earned Income Disregard." The current disregard is \$200 plus 20% of the remainder. For purposes of promoting and enhancing Michigan's JET program, in many cases it is in the best interest of clients to retain more of their earnings. For those reasons, DHS proposes to increase the Earned Income Disregard (in JET Sites) to \$200 + 50% of the balance of their earnings – to determine their budgetable income / grant amount.

As stated above there are several additional dynamics currently having an impact of the fiscal impacts of the Earned Income Disregard / Deduction. These are:

- Increases in Michigan's minimum wage from \$5.15 to \$6.95 on October 1, 2006. A subsequent increase to \$7.15 on July 1, 2007, and a final increase to \$7.40 on January 1, 2008.
- TANF Work requirements are increased to 20-hours per week for those cases with children under six years-of-age. This requirement equates to just under 87-hours per month: (52-weeks / 12-months = 4.33 Weeks per month X 20-hours per week = 87 Hours.)
- TANF Work requirements are increased to 30-hours per week for those cases with no children under six years-of-age. This requirement equates to 129-hours per month: (52-weeks / 12-months = 4.33 Weeks per month X 30-hours per week = 129 Hours per month.)

Discussion: Nearly 68% of current FIP recipients with earned income will see an increase in their gross pay in October 2006 when the minimum wage increases to \$6.95 per hour. Nearly 80% of FIP families with earned income will see an increase in their gross pay when the minimum wage increases to \$7.40 per hour in January 2008. Therefore, the phased increase in the state minimum wage from \$5.15 per hour to \$7.40 per hour must be considered in tandem with the proposed increase in the earned income disregard to accurately assess the impact of the change.

FIP cases with full-time earners at the current minimum wage close due to these earnings. They will continue to close at all future minimum wage levels, whether or not the earned income disregard remains the same or changes as proposed in this analysis. Therefore, the cost of the increase in the earned income disregard will apply only to the 22% of total FIP cases with part-time earnings. In January 2006, the number of part-time FIP earners was just over 17,000.

Even though there is a short-term cost associated with increasing the disregard, the impact of retaining the current disregard must also be considered. Currently, it takes nearly 38 hours per week of earnings to close a FIP case. If the current disregard remains in effect, it will take only 27 hours per week of employment to close the case in October 2006 and 26 hours per week to close the case starting in July 2007. With the earned income disregard proposed in this analysis, the number of hours needed to close these cases would remain at 37 or more per week.

Part-time workers seldom have medical benefits attached to their employment. Therefore, after one year of transitional Medicaid, these adult wage earners would generally not be covered by any health insurance. This would likely act as a disincentive to accepting part-time employment that may be available. Expecting that a family can and should be self-supporting when working part-time at minimum wage is not realistic. Closing the FIP case at this level will likely leave the family with little financial stability and with insufficient cash resources to meet their needs. In addition, closing the FIP cases for these part-time earners will reduce the number of active FIP families meeting the federal work requirements.

The analysis that follows provides specific details about the impacts of the combined impacts of the minimum wage increased and the proposed increase in the earned income disregard from \$200 +20% to \$200 + 50%.

1) FIP Cases With Earnings (With Children Under Six Years-of-Age): (Work Requirement = 20 Hours Per Week)

FIP cases are required to meet a 20-hour per week federal work requirement. Summary data (below) reflect incremental changes in grant amounts as the earned income disregard (EID) increases from \$200 +20% to \$200 +50%, as hourly minimum wages also increase. \$5.15 (current minimum wage); \$6.95 (minimum wage as of 10-1-2006); \$7.15 (minimum wage as of July 1, 2007), and \$7.40 (minimum wage as of 01-01-2008).

Annual Cost of Increasing EID to \$200 +50% from \$200 +20%. Minimum wage = \$5.15 (current rate)

- \$294.68 = FIP Grant @ current EID of \$200 +20%. Minimum Wage = \$5.15. **Would close due to earnings after working 37-hours.**
- \$367.55 = FIP Grant @ EID of \$200 +50%. Minimum Wage = \$5.15. **Would close due until earnings after working 52-hours.**
- \$72.87 = FIP Grant increase due to increase in the Earned Income Disregard
- **\$874,440** = Annual Cost per 1,000 Cases.

Annual Cost of Increasing EID to \$200 +50% from \$200 +20%. Minimum Wage = \$6.95 (effective 10-01-2006)

- \$170.84 FIP Grant @ current EID of \$200 +20%. Minimum Wage = \$6.95. **Would close due to earnings after working 27-hours.**
- \$290.15 FIP Grant @ EID of \$200 + 50%. Minimum Wage = \$6.95. **Would close due to earnings after working 39-hours.**
- \$119.31 FIP Grant increase due to EID and Minimum Wage
- **\$1,431,720** = Annual Cost per 1,000 Cases

Annual Cost of Increasing EID to \$200 +50% from \$200 +20%. Minimum Wage = \$7.15 (effective 07-01-2007)

- \$157.08 FIP Grant @ current EID of \$200 +20%. Minimum Wage = \$7.15. **Would close due to earnings after working 26-hours.**
- \$281.55 FIP Grant @ EID of \$200 + 50%. Minimum Wage = \$7.15. **Would close due to earnings after working 38-hours.**
- \$124.47 FIP Grant increase due to higher EID and Minimum Wage
- **\$1,493,640** = Annual Cost per 1,000 Cases

Annual Cost of Increasing EID to \$200 + 50% from \$200 +20%. Minimum Wage = \$7.40 (Effective 01-01-2008)

- \$139.88 FIP Grant @ current EID of \$200 + 20%. Minimum Wage = \$7.40. **Would close due to earnings after working 26-hours.**
- \$270.80 FIP Grant @ EID of \$200 + 50%. Minimum Wage = \$7.40. **Would close due to earnings after working 37-hours.**
- \$130.92 FIP Grant increase due to combined EID and Minimum Wage increases
- **\$1,571,040** = Annual Cost per 1,000 Cases

2) FIP Cases with Earnings (With No Children under Six Years-of-Age): (Work Requirement = 30 Hours per Week)

These FIP cases are required to meet a 30-hour per week federal work Requirement. Summary data (below) reflect incremental changes in grant amounts as the earned income disregard (EID) increases from \$200 +20% to \$200 +50%, as hourly minimum wages also increase. \$5.15 (current minimum wage); \$6.95 (minimum wage as of 10-1-2006); \$7.15 (minimum wage as of July 1, 2007), and \$7.40 (minimum wage as of 01-01-2008).

Annual Cost of Increasing EID to \$200 +50% from \$200 +20%. Minimum wage = \$5.15 (current rate)

- \$117.52 = FIP Grant @ current EID of \$200 +20%. Minimum Wage = \$5.15. **Would close due to earnings after working 37-hours.**
- \$256.83 = FIP Grant @ EID of \$200 +50%. Minimum Wage = \$5.15. **Would not close due until working 53-hours.**
- \$72.87 = FIP Grant increase due to increase in the Earned Income Deduction
- **\$874,440** = Annual Cost per 1,000 Cases.

Annual Cost of Increasing EID to \$200 +50% from \$200 +20%. Minimum Wage = \$6.95 (effective 10-01-2006)

- \$ -68.24 = FIP Budgetable Income at \$200 +20%. Minimum wage = \$6.95. **Case would not open.**
- \$140.73 = FIP Grant @ EID of \$200 + 50%. Minimum wage = \$6.95. **Would close due to earnings after working 39-hours.**
- \$140.73 = FIP Grant increase due to increase in the Earned Income Deduction
- **\$1,431,720** = Annual Cost per 1,000 Cases

Annual Cost of Increasing EID to \$200 +50% from \$200 +20%. Minimum Wage = \$7.15 (effective 07-01-2007)

- \$ -88.88 = FIP Budgetable Income at \$200 +20%. Minimum wage = \$7.15. **Case would not open.**
- \$127.83 = FIP Grant @ EID of \$200 + 50%. Minimum Wage = \$7.15. **Would close due to earnings after working 38-hours.**
- \$127.83 = FIP Grant increase due to increase in the Earned Income Deduction
- **\$1,533,960** = Annual Cost per 1,000 Cases

Annual Cost of Increasing EID to \$200 + 50% from \$200 +20%. Minimum Wage = \$7.40 (Effective 01-01-2008)

- \$ -114.68 = FIP Budgetable Income at \$200 +20%. Minimum wage = \$7.40. **Case would not open.**
- \$111.70 = FIP Grant w@ EID of \$200 + 50%. Minimum Wage = \$7.40. **Would close due to earnings after working 27-hours.**
- \$111.70 FIP Grant increase due to increase in the Earned Income Deduction
- **\$1,340,400** = Annual Cost per 1,000 Cases